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FBI agent testifies Rewald ran classic Ponzi scheme

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Ronald Rewald ran a "classic Ponzi scheme," obtaining \$22 million from almost 400 investors and using it to keep his operation afloat and to live an extravagant lifestyle, an FBI expert testified here yesterday.

Special Agent Glenn Martin of the FBI testified that an examination of almost every document associated with Rewald or his Honolulu company revealed that Rewald spent \$3,318.17 for CIA-related matters, and asked for and received only \$2,859.91 reimbursement from the CIA.

The CIA money represented less than one one-hundredth of 1 percent of the total, Martin said. "If you imagine a football field, which is 300 feet long, it's less than half an inch," he said.

Rewald, on trial on 98 federal counts of perjury, tax evasion and fraud, claims he ran his company at CIA direction as a cover for intelligence gathering. The CIA denies it.

Martin said nine investors who had employment or other relationships with the CIA invested about \$588,500 with the company, but that the money was all personal funds and did not come from the CIA.

All CIA personnel lost money they invested, Martin said.

The exact total of all investments by CIA personnel was not revealed lest analysis of the number expose the names of some CIA personnel whose identities have been concealed in the interest of national security.

Martin, an FBI expert in accounting and white collar fraud investigation, testified for the entire day, distributing to jurors a 25-page booklet outlining the complex financial transactions of Bishop Baldwin Rewald Dillingham & Wong.

His presentation, illustrated with dozens of huge charts, tables and graphs, was the culmination of thousands of person-hours of work by the FBI beginning within days of the collapse of Bishop Baldwin in July 1983.

Martin said Rewald's operation was an investment pyramid of the kind made famous by notorious swindler Charles Ponzi in 1920.



Rewald

In a Ponzi scheme, he said, investors are promised a high return, usually in a closely guarded confidential investment which does not actually exist. Their money is never actually invested, but they are paid back if necessary with funds from new investors, he said.

Rewald's scheme operated on the borderline of collapse from the beginning, and Bishop Baldwin had only \$510,000 on hand to show for \$11.2 million still owed investors when it finally toppled, Martin said.

Rewald's own books, which included bogus interest for investors, showed the debt was \$17.5 million at the end, Martin said.

Rewald kept no "stash of cash" set aside, Martin said, but then neither did Ponzi, who died a pauper in South America.

Rewald also used a "salt-the-mine" scam, in which he occasionally offered a special inside deal with up to 100 percent interest for "selected" investors, Martin said.

Those investors often would bring others in with them, and also would often leave their "profit" in Rewald's firm to gather more interest.

The agent said Rewald paid \$10.3 million out to investors on demand, used about \$5.4 million to operate his company, put \$623,000 into actual but unprofitable investments and diverted the remaining \$5.5 million for his own use.

That use included payment of \$287,000 to women for sexual and/or social relationships, \$467,000 for more than 20 fancy cars including Cadillacs and Rolls Royces, \$783,000 for ranches, \$264,000 on horses, \$256,000 to run a polo club, \$671,000 into failing sporting goods companies and \$718,000 for residences.

Much of the rest was lumped into a \$2.1 million miscellaneous category for everything from tutors for his children to chauffeurs for his cars, and including about \$860,000 in salary and "draws" by Rewald himself.

Bishop Baldwin collected only \$9,284 in interest on \$22 million in deposits, because Rewald funneled most of it in and out of a checking account which paid no interest, Martin said.

Martin, who has been working on the Rewald case for almost two years, said the investigation reviewed more than 100 bank accounts, 81 of which in 15 banks were controlled by Rewald.

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He said investigators found there were virtually no normal financial records in Bishop Baldwin and had to recreate the firm's financial history from checks and deposit slips.

Rewald, he said, made "creative entries" in his records, listing loans, deposits and payments that never existed.

Almost all of the CIA money that came to the company was from bank accounts in Hong Kong maintained by chiefs of the domestic collection division office here, and reimbursed primarily telephone and telex monthly charges for two fictional companies used to "backstop" cover for CIA personnel in the field, Martin said.

An additional \$45 came from an unnamed fictitious entity established by the CIA in 1973 and shut down in February 1984. This "CIA funding mechanism" was set up for CIA purposes completely unrelated to Rewald, the prosecution said.

The \$45 was paid to reimburse Rewald's CMI Corp. for business cards it printed for CIA officer Charles L. Richardson, in his alias of Richard C. Cavannaugh, the prosecution said.

Richardson used CMI as cover, the prosecution said, but plans to have another CIA employee also use the cover were scrapped "because of a change in circumstances that made the contemplated cover activity unfeasible."

The prosecution also revealed that Richardson recommended investments in Bishop Baldwin to four other persons associated with the CIA, three of them CIA employees and one "with an intelligence relationship" with the agency.

Those four invested something less than \$215,000, all of it from their personal funds, the government said.